



**Marc J. Herling**  
Chief Counsel  
AIG Benefit Solutions

July 13, 2006

**VIA OVERNIGHT MAIL  
EMAIL**

Mr. David Cassetty  
Enforcement Attorney/Insurance Division  
State of Vermont  
Department of Banking, Insurance,  
Securities and Health Care Administration  
89 Main Street, Drawer 20  
Montpelier, VT 05620-3101

RE: Vermont Target Market Conduct Examination of  
American General Assurance Company ("AGAC")  
January 1, 2000 through December 31, 2002  
NAIC #68373

Dear Mr. Cassetty:

The Company has reviewed the report dated May 2, 2006, and appreciates the opportunity to provide a response and additional information relative to the Department's findings. In addition, the Company would like to express its gratitude to the Department for taking the time to meet with us on May 23, 2006 to discuss the issues and solutions.

The Company takes its compliance responsibilities extremely seriously. The Department should know the vast changes that occurred at the Company during 2004-2005, including the establishment of an entirely new senior management team. The new senior management team has been heavily focused on improving policies, procedures and controls and will continue to do so in the future. In addition, the Company would also like to highlight the fact, as stated in the report, that AGAC acquired a significant portion of the business on January 1, 2002, which was during the time period the exam covered. While the Company does not believe it is acceptable to have any violations, we would like the Department to take this into account. To that end, the following response corresponds to each violation that has been raised in the order in which they appear in the report.

**American General Life Companies, LLC**  
**AIG Benefit Solutions**

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\*This Company does not solicit business in New York.

## **(I) Sales and Marketing:**

Relative to the Department's findings in the area of assumption reinsurance, the Company's records indicate that Mathes Associates, Inc., AGAC's General Agent, issued all master policyholders new master policies in the AGAC name in late 2001/early 2002. In early 2004, during the exam, Mathes mailed notices to borrowers who still had certificates/individual policies in force. As discussed during the Company's meeting with the Department in May, the required notices have been sent pursuant to 8 V.S.A. §8204 and 8 V.S.A. §8205 and a certification to this effect, signed by a senior officer, is included hereto as Exhibit A.

The Department, citing 84-1 § 12 (1) as support, recommended that the Company discontinue the use of certain reinsurance agreements, which they deemed to be prohibited as unfair methods of competition. A reinsurance company, whether domiciled in Arizona or otherwise, that reinsures the credit insurance written on the debtors of that creditor and that is affiliated with that creditor, is a chartered legal entity that has authority from a regulatory body to assume all or a part of that insurance risk. Such reinsurers have to maintain a capital and surplus investment in their company, which is significant in its own right even if not to the degree that a full life company would have to maintain. The reinsurer nevertheless has ongoing corporate governance and licensing tasks, which must be maintained at a cost. Such reinsurers are real companies that are assuming risk, which is not the same as giving something of monetary value to the creditor where the creditor has no risk, investment or cost involved. For its assumption of the risk, such reinsurance company is entitled to compensation. The Department's analysis did not take note of the fact that the Company requires any such reinsurer to maintain in trust for the benefit of the Company assets that are at least equal to the required claims reserve for that business and in some cases including a percentage in excess thereof.

Pertaining to the violation alleged in Vermont Regulation 84-1 § 12, the Company did not read the language the way it is interpreted and we were caught off guard. To impose such a requirement upon the Company would put it at a competitive disadvantage with the rest of the credit insurance industry, and thus would be discriminatory. It is our understanding that Vermont is the domicile of a number of captive insurance companies that operate in a similar fashion to the Arizona and other reinsurers mentioned in the examination report. It would appear that, at least with respect to captive insurance companies domiciled in Vermont, Vermont endorses and approves this type of arrangement. The Company respectfully asks the Department to reconsider its position relative to this issue.

## **(II) Claims Procedures:**

With respect to the finding that the Company failed to pay interest on life claims from the date of death of the insured in accordance with 8 V.S.A. § 3665 (c) (2), a new process has been implemented whereby interest is calculated to the date the check is processed. More specifically, there is an additional three days of interest added to allow for release/mailing of the check. Lastly, in order to assure communication of this new process, the Claims Department held a mandatory training class covering the

calculation of interest in November, 2005. This training will be held as an annual reminder of the process, as well to further refine the interest payment skills of the Claims staff.

Furthermore, during the exam in 2004, at the request of the Department, the Company reviewed all claims from the examination samples and made the appropriate refunds. While the Company's discussions with the Department indicated confirmation of such refunds, the Company would again like to confirm herein that such refunds were made during the course of the examination. In addition, the Company recently completed its review of all life claims paid during the past five years to confirm that the appropriate amount of interest was paid. The Company is pleased to inform the Department that results of such review indicated that only forty-one claims were due refunds with an aggregate refund amount of \$1,884.16, which includes interest. The Company paid these refunds by May 18, 2006.

Relative to the Department's observation the Company did not refund the unearned disability (A&H) premiums in accordance with 8 V.S.A. § 4724 (12) and Regulation 84-1 § 3 (9) (a), the Company would like to reiterate that the concern was the ability to produce proof that the appropriate refunds were made. On April 1, 2003 a new billing system was implemented, which has the capability to record refund checks, resulting in the ability to provide proof of refunds when requested. This substantial upgrade in technology renders this issue obsolete going forward.

During the exam, the Department identified a claim file notation indicating that certain banks had an exemption from refunding unearned A&H premium. The Company would like to remind the Department that this note was referring in part to a special procedure that is in place with certain banks relative to refund protocol. All refunds are made and there is no exemption per se. These banks, in an effort to provide better service to their customers and be proactive, provide such refunds at the time of notification rather than at the time of death through the Company's system. If the Company sent out such refunds, they would be duplicative. Thus, the system is coded to "stop" the automatic refund and reimburse the bank. Furthermore, in order to confirm that this process is accurate, the Quality Assurance Department performs a sample audit monthly. Unearned A&H premiums are in fact refunded.

In addition, the Company recently completed its review of life claims that also included A&H coverage to determine if any refunds relative to unearned disability premiums are due. The Company is pleased to inform the Department that the results of such review indicated that there were only nine insureds due refunds with an aggregate refund amount of \$1,546.29, which includes interest. The Company paid these refunds by May 24, 2006.

In response to the Department's conclusions that the Company was in violation of 79-2 § 6 C and 8 V.S.A § 3665 (d), 79-2 § 6 C, the claims handling policies, procedures and controls have undergone significant enhancement to ensure compliance with the applicable requirements. The Company would like to emphasize that the normal practice is to acknowledge all claims within ten working days and send follow-up letters every thirty days. The follow-up process has now been automated to eliminate the potential for clerical errors which are inherent in all manual processes. Follow-up

request letters are sent automatically by the system every fifteen days for up to three requests in an attempt to secure the information needed to process the claim. If a response is not received after the third follow-up attempt, the claimant is informed that the claim is being closed until such time as the requested documentation is received. The Company has also installed a control to verify compliance by instituting a monthly claims file sampling process by the Quality Control Department. The entire Claims Department has also been reminded of the necessity to send out acknowledgement and follow-up letters within the required timeframes. In addition, creditors were sent reminders in their April, 2006 monthly billing statements relative to proper claims notification procedures. In the future, training will also be given to creditors relative to the proper claims handling procedures. Finally, the Company would also like to inform the Department that, during the course of the exam in 2004, the Company took corrective action by paying the appropriate penalty for one identified claim which was not timely paid.

In answer to the Department's findings that the Company did not timely respond to a complaint-related inquiry in accordance with the requirements of 79-2 § 5 C, the Company has recently redesigned the complaint-handling process. All complaints are now handled by the Company's centralized Consumer Affairs Department, which has robust complaint management and tracking capabilities. Responses to the Department will be provided within the required fifteen days.

### **(III) Production of Records:**

In response to the Department's findings relative to record retention and production, the Company would like to point out that the timeframe of this exam covered a period of time when the Company's operations were moved from our Schaumburg, Illinois office to New Jersey, including transfer of documents and upgrading of our systems. Also notable is that a substantial number of personnel from the Schaumburg office chose not to relocate to the Neptune office. While the Company does not intend for these remarks to be construed by the Department as an excuse, we hope that it seeks to provide some helpful background information surrounding the circumstances. The Company takes its records retention obligations very seriously and will continue to review the requirements of 99-1 with the goal of devising a comprehensive corrective action plan to further enhance current policies, procedures and controls.

In fact, the Company is pleased to inform the Department that it has already begun to take the steps needed to comply and has made progress. For example, beginning in 2003, all certificates that are received by the Company are scanned and indexed for easy retrieval. Additionally, the Company is currently updating its administration manual to include information relative to this topic. Moreover, the Company's trainers discuss the importance of proper record retention with all accounts as part of our training program. Lastly, the Company will develop a formal records retention-focused training program for home office employees.

#### **(IV) Supervision of Credit Insurance Operations**

In reply to the Department's observation that the Company failed to adhere to the requirements of 84-1 § 11, Mathes, our General Agent, advised us that they did in fact have a routine audit/client visit program in place to satisfy the periodic review requirement. Additionally, at the time of the exam, the Company developed an audit form, as well as formal, documented audit procedures to comply with 84-1 § 11. The Company is currently confirming the adequacy of the audit process implementation and will take the appropriate action. More specifically, the Company will assure that audits are to be completed annually on a revolving basis, which will insure that every account will be audited at least one time in a three year period.

#### **(V) Rates and Related Issues**

The Company agrees with the Department and continues to acknowledge that the required 2000 and 2001 experience and accompanying rate filings were not completed in a timely manner. While hindsight indicates that the Company's judgment was far from ideal, there was certainly no bad faith or deliberate delay intended. As a matter of background, the Vermont Department of Banking, Insurance, Securities & Health Care Administration approved the Company's rate filing submission for 1999 on January 1, 2001. Subsequently the Company began our preparation for making the 2000 submission by June 1, 2001. This submission was planned to follow the same overall format and content as the previously approved submission for 1999. While making a good faith effort to file 2000 on a timely basis, our actuary at the time raised a number of filing-related questions with the Department's actuary. These questions led to a series of e-mails and letters between our actuary and the Department that began May 26, 2001 and ended September 13, 2002 with the approval of a much-modified 2000 submission. Because the 2000 submission was going through a series of changes that were not yet finalized as of June 1, 2002, the 2001 submission was withheld until the final rate filing format and content were established. Once the 2000 submission was approved on September 13, 2002, the 2001 submission was made only seven days later in the same overall format and content as the 2000 submission. The delay was therefore caused in part by the necessity to first resolve those questions with the Department's actuary. Again, while we agree that there was an error in judgment made on the part of AGAC; this was not an intentional delay.

The 2002 filing was filed on June 12, 2003, which admittedly is slightly late. While the 2002 filing was late, the 2003 and 2004 filings, however, were in fact timely submitted. Finally, the Company would like to confirm for the Department that the 2005 filing was completed as required by June 1, 2006. To summarize, the aforementioned delays were unique, will not reoccur and the recent timely filings do indicate a pattern of compliance. Finally, to address the Department's concerns regarding the incorrect calculation of rates due to the lack of timeliness in filing and an error in the investment assumption percentage, the Company will refund with interest any premium that was overcharged following a thorough assessment. Our initial assessment indicates during the period of September 1, 2001 through August 31, 2002, the Company should have implemented a rate of 0.435/\$1,000, but a rate of 0.462/\$1000 which was approved for the previous annual period was used. As a result we overcharged 275 certificates totaling \$4,138.00. Additionally, during the period of September 1, 2002 through August 31, 2003 the Company should have implemented a rate of

0.413/\$1,000, but once again; 0.462/\$1000 was still being used. As a result we overcharged 518 certificates totaling \$8,813.00. The Company is currently in the process of putting together a project plan to locate the affected policyholders and begin the refunding process. Lastly, the Company will proactively review subsequent years to determine if any additional refunds may be due and will pay such refunds with interest accordingly.

With respect to the Department's findings pursuant to the requirements of 8 V.S.A. § 4109 (a), the Company is reviewing all premiums charged in the past five years for credit life and credit disability coverage to determine if any premiums were overcharged. All overcharged premiums, if any, will be refunded with interest directly to certificate holders and confirmation provided to the Department as requested. Regarding the one sample that was discovered to have been overcharged during the exam, the Company provided the appropriate refund to the certificate holder in 2004.

To address the Department's finding that the Company did not adhere to 8 V.S.A. § 4109 (a) relative to charging incorrect premium for the actual benefit specified in the approved policy and certificate for the CAP program, the proper benefit (5%) was paid in accordance with the premium that was charged even though it was technically not in line with the approved certificate language. On a going forward basis, this will no longer be an issue for the Company as we have exited the CAP business. It will be extremely difficult for the Company to provide refunds in accordance with the Department's recommendation due to our exiting of the business, as the account-level information needed to identify potential overcharges, as well as the needed business relationships, is no longer available. The Company would like to discuss this issue further with the Department in order to determine an agreeable solution.

## **(VI) Producer Licensing**

To answer the Department's findings that personnel of the various creditors are not licensed/appointed in accordance with 8 V.S.A. § 4813b and 8 V.S.A. § 48131, personnel of the various creditors, who make available credit insurance on behalf of the Company by securing and furnishing information for that purpose, were exempt from licensing under the "group enroller exemption" as described in 8 V.S.A. § 4799<sup>1</sup> for the timeframe January 1, 2000 through July 1, 2002 and now are exempt from licensing under the "group enroller exemption" as described in 8 V.S.A. § 4813d (b)(2). Note that neither the Creditors, nor their employees are paid a commission by AGAC. Instead, the creditors act as an Enroller for AGAC and are paid a service fee (expense reimbursement contract) for providing and servicing certificates under a group credit master policy. The Company seeks clarification from the Department regarding its position that the group enroller exemption does not apply given these facts.

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<sup>1</sup> Former 8 V.S.A. § 4799 provided: "No license as an insurance agent, insurance broker ... or limited insurance representative shall be require of the following: (4) Employees of a creditor who enroll debtors under a group policy, provided such employees receive no commission." This section was repealed effective July 1, 2002 and replaced by the current group enroller exemption found in § 4813d (b)(2).

**(VII) Legal Actions Involving Other Insurance Departments:**

In response to the Department's findings relative to reporting legal actions involving other insurance departments, in July of 2004 a procedure was instituted in the main office to log and report fines and/or penalties in accordance with Vermont Bulletin 30. In 2005, a reminder of this process was communicated. To again emphasize the importance of complying with this obligation, a reminder notice will be issued to all employees that fines and/or penalties must be reported in accordance with state requirements.

**Summary of Recommendations:**

In response to the Department's recommendations, the Company has taken corrective action as outlined above and is developing comprehensive action plans to assure appropriate compliance with Vermont law in a holistic manner. The Company takes its compliance obligations very seriously and will endeavor to incorporate the Department's recommendations in our ongoing policies, procedures and controls with the goal of establishing best practices to benefit consumers.

I trust that this response, as well as the attached information, is sufficient for your review and consideration. Should you have any questions or need additional information, please do not hesitate to contact me at (732) 922-7500.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Marc J. Herling", written in a cursive style.

Marc J. Herling  
Chief Counsel

# **Exhibit A**



**VERMONT**  
**CERTIFICATION**

INSURER: American General Assurance Company

NAIC NO: 012-68373

I, Pat Bosi, Senior Vice President, do hereby certify that all required assumption notices were sent by Mathes, AGAC's general agent, to all certificate holders and individual policyholders who still had coverage in force in accordance with 8 V.S.A §8204 and 8 V.S.A §8205 in early 2004.

BY: 

TITLE: Sr. Vice President

DATE: 7-11-06